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GOVERNMENT PROMOTION OF BUSINESS

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GOVERNMENT PROMOTION OF BUSINESS

Whereas government regulation of business provides the framework for business to relate to each other and especially to the community, government promotion of business is the role of government which stimulates and supports the creation of businesses, fosters their growth and enables them to contribute their own share to the economic and indeed the social development of the nation.

Since 1972, the Federal Government has given special attention to the promotion of business in this country. The Nigerian Enterprises Promotion Decree of February 1972 laid the foundations of a new government approach to the development of business which, until then, had received little government attention other than for fiscal purposes.

The NEP Decree of 1972 defined for the first time a strong and positive interest by government in the growth and development of business enterprises and provided some guidelines as to ownership and control so as to ensure that business enterprises contributed, as expected, towards national development rather than to providing a source of offshore income to investors from other countries.

During the intervening period from 1972 to the day, there has been a considerable activity by government in defining detailed policies, and in creating various types of policy instruments to further promote the development of business enterprises in Nigeria.

Some of the actions taken have included the creating of development finance institutions to provide capital for assisting private entrepreneurs, and the assuming by government of a controlling share in all commercial banks in the country in order to be able to influence banking policies and practices in desirable directions to support indigenous business.

A great deal has also been done by government by way of using tariffs and other fiscal measures to provide incentives or protection to local business to expand their operations both in volume as well as by diversification into new lines of activity.

Nonetheless, in spite of the efforts of government, business has not expanded as expected by the projections in the various development plans, especially in the production sectors of industry and agriculture. Even in the distribution sector, there have been dislocations which have caused considerable hardships within the society.

The objective of this paper is not to undertake an academic review of the whole range of government policy and action for the promotion of business. Rather it will be my objective to discuss the priority problems which are still outstanding and which constitute obstacles to the rapid growth of businesses.

New thinking should be directed to such problems so as to further move ahead the pace of development of business in the sectors where the problems exist.

Furthermore, the paper will propose some particular directions for government policy and action which may assist in obtaining solutions to a number of priority problems.

For the purposes of this paper, I would like to consider business as being divided into three categories, namely, production; distribution and merchandizing; and services.

Production includes such businesses as mining, manufacturing, construction, agriculture, forestry and fisheries. Production businesses produce the goods which are required to sustain life and to keep society going; these may vary from food and drink at one end of the spectrum to clothing, footwear, furniture, vehicles, machinery and so forth: it is an endless list.

Distribution and merchandizing which we know popularly in Nigeria as "trading" has the role of bringing all the goods and articles produced by the first group of businesses from the producers to the consumers or users.

The third category of businesses are the services. These are the businesses that offer to do things for you which in simpler societies you will do for yourself to keep life in the family or in the community going. The service businesses take action for your benefit, benefits that are intangible although very real.

Among service businesses we can cite examples such as transport, entertainment, banking and insurance, hairdressing, laundries and so forth.

In some countries, health care and education can also be conducted as businesses, but the trend all over the world is for this latter group of businesses to be converted into social services, as a community becomes more and more prosperous.

Actually, in strict economic parlance, distribution and merchandizing are also services, but they are calssified here as a special category from the other services businesses because of their special importance as the "trading"sector.

Within Nigeria, the trading sector of business is the largest and without doubt the most popular. If it requires any government action to be taken about it, this should be more in the direction of restructuring and regulation rather than promotion.

The subject of regulation of business which may also involve restructuring belongs to another section of the discussions at this national conference.

It is in the production sector that the creation and expansion of business enterprises require further promotion, particularly into newer and more diversified kinds of production.

The businesses in the production sector are sometimes grouped into two broad classes, industry and agriculture. I propose to examine the production sector businesses under these two headings, starting with industry.

The most important prerequisite for an industry to be started and to survive is that there should be a market for its products. In a developing country like Nigeria, that market is made up at the early stages by the internal demand for the particular products to be made by the industry.

At a later stage, an external demand constituting an export market may supplement the internal market and enable the industry to expand faster.

A special case of industry is constituted by a mining business which may be created in answer to an initial external demand. However, the existence of this special case does not derogate from the validity of the general prerequisite of a market for the products of an industry.

Whilst the opportunities of an external market may exist, it is clear that the portion of the total market which, in the general case, is amenable to manipulation by national policies is the internal market. The lesson from all the countries that have successfully developed national industries is that the internal market must be reserved principally or totally for the home industries.

We can observe this lesson from the economic history of the developed countries, starting with the industrial revolution in England, through the period of industrial development in Germany, France, USA, Japan and the USSR.

In the case of the United Kingdom, she was also able to reserve a large external market for her industries through the policy of imperial preferences and a closed door policy to imports from non-empire countries into her colonies during her period of imperial supremacy.

Reservation of the internal market for local products can be achieved by the use of different policy instruments. These may include one or more combinations of the following instruments:

(a) Outright ban on importation of the product;

(b) Placing importation under licence, usually in conjuction with quantitative import quotas;

(c) Imposing import tariffs ranging from penal high levels (to discourage importation) to selected low percentages (used for price adjustment on imports); and

(d) Non-fiscal tariff barriers in the form of national product specifications and product standards.

An example of an outright ban on importation was the ban imposed on the import of beer bottles and of beer in bottles a few years ago. This was introduced by the Federal Government to save a large, high production glass bottle factory from commercial collapse. According to reports at the time, the factory had upwards of half a million beer bottles in stock which could not be sold because many breweries continued to bring in glass bottles from abroad in spite of the availability of a local supply. In fact, in order to further close down all avenues for the indirect entry of glass beer bottles, the import of bottled beer was also banned.

This led to the era of importation of canned beer which most of you no doubt still remember.

Placing of an imported article under import licence is also an effective way of control when combined with predetermined import quotas. Without such import quota figures, there is no guide as to the quantities for which import licences are issued that the control effect is diminished or nullified.

The best example, in Nigeria, of the use of import licences and quotas to protect the internal market for local production is the example of the Peugeot and Volkswagen passenger car assembly factories. A total annual market demand for passenger cars is estimated each year. The supplying of this demand is then allocated between the local assembly plants and imported cars.

Usually the planned output of the two assembly plants in one year is subtracted from the total annual demand in the same year. The balance is established as the quota ceiling for imported cars for the particular year. Licences are then issued for car imports in phased quantities throughout the year so as to keep the total number ofcars imported in that year within the quota already established.

In 1980, for example, the total effective market demand for passenger cars in Nigeria came to 75,410 vehicles. Of this number, 72,000 were supplied by the two car assembly plants (Peugeot 51,000: Volkswagen 21,000) and the balance of 3,410 was imported under licence.

This policy ensures that there is a market for all the cars produced by the local assembly plants.

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The policy of preserving the internal market for local goods is also referred to as "protection".

Protection of the internal market is a basic prerequisite for the development and survival of local industries. Without such protection, no significant development of industry can take place.

While protection is necessary to enable local industries to survive, it is not enough as a policy to promote their creation. Hence protection serves little purpose except to discredit the policy, if it is embarked upon before the industries being protected have started production.

This mistaken use of protection was embarked upon during the last years of the recent Nigerian military regime when many products were banned or placed under licence for importation at a time when there was no local supply. The expectation was that the restrictions would stimulate local entrepreneurs to set up local production. Nothing of the sort happened, of course. Shortages were created artifically by this approach and eventually the whole programme of protection was so much discredited that the bans and controls were eventually removed.

Protection policies should be embarked upon after local industries commence production of the goods to be affected by such policies.

In recent months, there has been some ambivalence on the part of the Federal Government about maintaining market protection for a number of local industries. The effect of such a vacillation can be devastating on local industries, even over a short period. As an example, up to about the middle of last year, all the plywood manufacturing companies in Nigeria were working flat out to meet the demand for plywood panels. Somehow, a group of people managed to persuade the Federal Ministry of Trade to issue import licences during the latter part of the year. Licences were issued without any guidelines as to the quantitative limits required to supplement local production capabilities. As a result, within a few months, the whole country was flooded with imported plywood from China and Korea.

At present, the local plywood factories have their warehouses full of plywood inventories which they cannot sell. Many have already reduced production drastically and one of the larger producers is now in the middle of an exercise to lay off 1,500 workers made redundant as a result of the cutback in production.

There should be no mistake made about the need for market protection if we expect our industries to survive and grow.

The next most important issue after markets, in a discussion on the promotion of industry is technology. We can write a general formula for industry as follows:

Raw materials / Semi-finished inputs PLUS Technology = PRODUCTS

Raw materials and semi-finished inputs when combined with suitable technology (involving trained manpower and machinery) yield finished products.

Much of our local industry can be described by one of three patterns. In the first pattern we have:

			SAMPLE PRODUCTS
Imported Inputs (minor local inputs)	PLUS	Simple Technology + Machinery	= Coca Cola, Paper Packaging, Toothpaste

The second type of industry has the pattern:

Imported Inputs (minor local inputs)	PLUS	Extensive Technology + Machinery	= Beer, Plastic Products, Assembled Products

The third category of industry has the pattern:

Local inputs (minor imported inputs)	PLUS	Extensive Technology + Machinery	= Cotton Textiles, Cocoa Products, Rubber Tyres, Plywood

All of these industries have one weak link in their structural pattern in so far as we are concerned, namely, guaranteeing the integrity and continuity of the technology and the machinery. In none of these industries has the technology been "domiciled".

If we take the first case, the production of aerated mineral drinks, most of the intricate technology for producing the drink is already incorporated in the imported input, the concentrate. The processes involved in purifying the water (the main local raw material), mixing it with the concentrate, impregnating it with carbon dioxide, filling the resulting drink into bottles and closing with crown corks are relatively simple.

However, because of the large scale of production at which this industry operates, the machinery incorporating these simple operations can be quite complex. We observe firstly that the machines are not made here; there are no service representatives who can maintain them here; no arrangements have been made for them to be maintained by indigenous local personnel.

For example, the most complicated single machine in a minerals soft drinks plant is the bottling machine. When his machine goes off the correct settings, either a resident expatriate engineer/technician or one specially flown in from abroad for the purpose is required to repair and reset it.

The success of this type of industry is dependent on the regular supply of concentrate from abroad and the availability of an expatriate engineer/technician locally, or direct technological intervention from overseas from time to time.

In the second pattern of industry, there exists the same precariousness in the operating scenario. A great deal of technology is already incorporated in the imported raw materials. For the brewery, the most important raw materials are imported in partly processed form, malt from barley; in the case of plastic products, we bring in the polymers in powder or granulated form which is itself the product of very complex technology.

When we consider the example of assembly factories, say for vehicles or electronic equipment, we are really bringing in highly complex components and sub-assemblies.

The machinery employed in the final manufacturing stages embody quite extensive and complex technologies. Again, these factories are dependent on an umbilical chord from abroad as regards their inputs. The technology of operation of their processes and machinery is not "domiciled" in any local skilled manpower and large numbers of expatriate engineers/technicians are required on site to keep the factories in operation.

In the third case, the basic raw materials are largely local, but the technologies and machinery involved are still more complex and more extensive. In fact, one can say that the further we move backwards to the basic raw materials in the inputs to our factories, the more extensive the technolgies and machinery involved: unless we change our present style of setting up and running our factories, the greater will be the numbers of expatriate engineers/technicians to be kept in residence to guarantee the continuity of operation of the production technologies and machinery.

The result is that all our industries are very vulnerable to factors over which we have no control. Around this same issue of technology also lies a major problem for the promotion of industrial enterprises.

Enterprises with this level of dependence on continuing technological inputs and services from abroad possess little autonomous capacity for expansion or diversification.

To all intents and purposes, the only significantly Nigerian component in their basic configuration is their geography of location. Without the completion of the technology transfer process, the apparent progress of industrialisation is a hollow achievement: there is no substance in it.

At this point, I am not about to join the growing gang of speakers who say that there is no such thing as technology transfer. Such facile statements which merely indicate our lack of understanding of the process of technology transfer and the conditions under which it can be effected cannot be allowed to me.

By training and profession, I have myself been involved in the process: in the early stages at the receiving end, and in recent years at the transferring end.

In any case, the technological history of many countries confirms that technology transfer can be effected if planned and organised by people who know the nature of technology and the elements of the transfer process.

The trouble with Nigeria is that many of those who insist on formulating policies and making plans for our technological development themselves know little of technology. When inadequate plans and concepts fail to yield results, the alibi is to deny that the process of transfer exists.

Government policy and action is required to promote the development of indigenous capacity for operation and maintenance of the technology and machinery in key industries, especially those in the second and third patterns illustrated in the sample configurations already discussed. Three strategies can be considered towards this end.

The first one is to assist selected industries, either singly or in groups belonging to the same industries, to develop and train indigenous manpower and build up support facilities on an agreed planned basis. This approach can be employed to develop local capability for internal operating maintenance and servicing and for adjustment and resetting of complex process lines.

The second strategy would be to encourage and support individual Nigerian engineers and technologists to create specialist groups and acquire the necessary facilities to provide fully domestic engineering and technological support facilities for different industrial technology groups. This approach can be employed to foster the creation of local capacity for machine design, repair and rehabilitation.

The third strategy would be the creation of industrial R & D facilities for specialized industrial technologies in different centres, each of which would specialize in a particular industrial technology sector.

This approach will be required for long term R & D to develop local technology and especially for the adaptation of imported technologies.

Action to domesticate technology is required in our industries to reduce the costs of production progressively and to enable them eventually to do without such a high level of protection in the home market.

Perhaps the most serious obstacle to the entrepreneur considering the promotion of an industry is the whole problem of getting started. Questions like what product to set up a plant to produce? What scale of production to adopt and what technology to use? What machinery and where to get it: the design and installation of the plant and equipment? How to put all these elements together with market estimates, financial requirements and operating economics in order to constitute a practicable project which can be promoted for investment by the entrepreneur and his partners, or presented to financing institutions for support?

This whole process is left, in our present day circumstances, to the hazard of isolated initiatives. Quite naturally a great deal of initiative is directed towards lines of products that have already been set up and have proved examples of success.

Examples of such popular industries are soft drinks, beer, toilet paper, packaging and ballpoint pens. I understand from one development bank executive that there are now sufficient projects for producing ballpoint pens already implemented or in the pipeline to supply every man, woman and child constituting the eighty million of Nigeria's population with at least one ballpoint pen, whether literate or not! Yet many other products which are much more in demand attract no effective attention.

A great step forward would be taken if the various governments at federal or state level would identify and establish a list of products which are considered appropriate or desirable for local production.

Each government, through its appropriate ministry, should then commission the preparation of preliminary project or full project feasibility studies for the establishment of industries, especially small and medium scale industries in different locations; perhaps in every local government area within their state.

In the case of small scale industries, this can be done with an eye to taking advantage of any local raw materials or traditional skills in particular local government areas.

When such a programme of studies has been in operation for some time, an expanding portfolio of investment projects of different scales of production and investment requirements can be built up.

Brochures can be issued by the ministries concerned, listing the projects available for investment by interested entrepreneurs and the conditions attached. If this is coupled with a programme of assistance with finding land, information as to sources of machinery and equipment, and some degree of assistance (on a loan basis) with procuring the necessary machinery, a great boost will be given to the establishment of industries all over the country.

There is no doubt that in agriculture, peasant farming as we know it from the past is dying out. It is dying out as the younger generations, with high expectations for a different standard of life from that of their parents, refuse to continue what has been traditionally a family vocation.

To rehabilitate this sector of national production will require a new style of farming. The size of individual farms will be increased and less people will be available to work on each farm.

The new style of farming will require new and improved agricultural technologies - new agronomic practices, improved genetic varieties, assured and controlled supplies of water, inputs of fertilizers and pest control materials.

Of course, machinery will require to be introduced for some tasks which can no longer be realistically carried out manually within acceptable time allocations on a large farm.

All this implies a new way of life altogether for those remaining in agriculture. It will require higher level of education and training to adopt the new farming systems and to operate them successfully.

No wonder then that the green revolution which has been so much promulgated in constant government propaganda exercises is anything but a revolution. Maybe we should start-thinking of it as the "green evolution".

The new agricultural evolution would increase its pace somewhat, if people with a higher level of education in agricultural science and technology can be attracted into actual farming.

Recent government policy pronouncements show a recognition of this need, but one gets the impression that government policies on the subject are directed towards attracting the farmers from other developed countries to come here!

Having regard to the long period of gestation of investment in agriculture and the need for usage of large tracts of land by such foreign business farmers, it may be wise to consider afresh the social, political and economic implications of such policies.

In so far as the serious Nigerian investor is concerned, his problems with undertaking investment in new forms of agricultural enterprise are analogous to his problems of entering new types of industrial ventures.

There is a problem of information and demonstration. What are the component parts of these new forms of agricultural production? How does one put together information on land, what can be grown on it, what agronomic procedures and inputs?

What form of organisation will be suitable, what equipment will be necessary? Where does one obtain the trained manpower for a large scale farm; alternatively, how can they be trained, where?

These are all questions that can be sorted out and answered within this country. In the first place, it is necessary to provide information on a state, or better still, on a local government basis about what land is available for agricultural development.

Maps should be provided showing the soil types and the different types of crops that can be grown in different areas on such maps. The plots of such land which can be made available for agriculture in each state, and the conditions under which such plots can be obtained should also be published.

Secondly, there is a need for leaflets, brochures and manuals on the recommended farming systems for different types of crops in the areas shown on the soil maps.

Agricultural Production

Reports on sample farm projects and, in some cases, complete feasibility reports for setting up farms of different sizes in the plots to be made available by the state governments should be prepared by the appropriate state ministries and made available on suitable conditions to prospective new farmers and investors in farming.

Thirdly, there is a need to set up demonstration farms for different crops and for animal production where the future farmers and farm workers can receive on-the-job training in the farming systems of their choice.

Concrete and well-planned action along the lines indicated is necessary now, and such action should take over from the continuous exhortations about the green revolution which do not promote much other than the expenditure of public funds!

There is also a need to review the results of the fertiliser distribution exercises which have been going on for some time. We are bombarded, from time to time, with figures of the millions of naira spent on buying and distributing fertilisers in the country, but we are yet to be provided publicly with figures of the quantities and the naira values of the agricultural production which have resulted therefrom.

There are times one gets the uncomfortable feeling that the amounts already spent on fertilisers are greater than the value of any probable agricultural production that could result therefrom.